



# Client Categorisation Policy

2018

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## I. Introduction

Following the implementation of the Markets in Financial Instruments Directive (MiFID II) in the European Union RTW Brokers (UK) Ltd (“we”, “RTW Brokers”, “the Company”), a Company authorised and regulated by the Financial Conduct Authority (FRN: 793714.) with registered office at 1 Swan Wood Park, Gun Hill, Horam, East Sussex, United Kingdom. TN21 0LL, is required to categorise Clients, those to which the Company provides or has provided a service in the course of carrying on a regulated activity.

## II. Legal Framework

The Company is operating under the provisions of the Directive 2014/65/EU of the European Parliament and of the Council of 15 May 2014 on Markets in Financial Instruments and amending Directive 2002/92/EC and Directive 2011/61/EU, as the same may be in force from time to time and modified or amended from time to time (the “Markets in Financial Instruments Directive (2014/65/EU)” or “MiFID II”).

According to the above legislation, the Company is required to categorise its Clients into one of the following three categories: “retail”, “professional” or “eligible counterparty”. As a result, the Company should evaluate any application for opening an account and classify any prospective Client under any of the categories mentioned above, always based on the information provided by the said Client.

## III. Notification to the Client for its categorization:

The Company, prior to the provision of services, shall notify a new Clients of their categorisation . Further to this, through this Policy, the Company informs the Client of:

- (a) any right that client has to request a different categorisation (see Section V); and
- (b) any limitations to the level of Client protection that such a different categorisation would entail (see Section VI).

The Company proceeds in this action, in order to offer a uniform level of protection to all of its Clients.

#### **IV. Client Categorisation**

Categorization is undertaken on the basis of objective criteria. It is noted that there are three (3) levels of regulatory protection to each category of clients. In particular, Retail Clients are afforded the most regulatory protection pursuant to the legislative requirements whereas Professional Clients and Eligible Counterparties Clients are considered to sustain the necessary experience and knowledge to assess their own risk and therefore are afforded a lighter regulatory protection. It is noted though that MiFID II has enhanced the regulatory protections of Professional Clients.

The Company will be offering its services to retail clients that are individuals only. We will treat you as a Retail Client (unless we notify you in writing to propose that we may treat you differently under the applicable legislation). In accordance with Principle 7 (communications with clients) if the Company at its own initiative re-categorises a client in accordance with this policy, it will notify that client of its new category. The Company will also consider any contractual requirements concerning the amendment of the agreement with the client.

The client categorisation criteria are outlined below.

##### **i. Retail Clients**

A Retail Client is a client who is not a Professional Client nor an eligible counterparty.

## **ii. Professional Clients**

A Professional Client is a Client who possesses the experience, knowledge and expertise to make its own investment decisions and properly assess the risks that it incurs. In order to be considered as a Professional Client, the Client must comply with the following criteria:

(1) Entities which are required to be authorised or regulated to operate in the financial markets. The list below shall be understood as including all authorised entities carrying out the characteristic activities of the entities mentioned: entities authorised by a Member State under a Directive, entities authorised or regulated by a Member State without reference to a Directive, and entities authorised or regulated by a third country:

- (a) Credit institutions;
- (b) Investment firms;
- (c) Other authorised or regulated financial institutions;
- (d) Insurance companies;
- (e) Collective investment schemes and management companies of such schemes;
- (f) Pension funds and management companies of such funds;
- (g) Commodity and commodity derivatives dealers;
- (h) Locals;
- (i) Other institutional investors;

(2) Large undertakings meeting two of the following size requirements on a company basis:

- balance sheet total: EUR 20 000 000
- net turnover: EUR 40 000 000
- own funds: EUR 2 000 000

(3) National and regional governments, including public bodies that manage public debt at national or regional level, Central Banks, international and

supranational institutions such as the World Bank, the IMF, the ECB, the EIB and other similar international organisations.

(4) Other institutional investors whose main activity is to invest in financial instruments, including entities dedicated to the securitisation of assets or other financing transactions.

(5) Clients who may be treated as Professional Clients on request provided that relevant criteria and procedure will be fulfilled and the approval by the Company is obtained. Those clients shall **not**, however, be presumed to possess market knowledge and experience comparable to that of the “by-default” categories listed above. Further details are outlined in Section “Professional Clients on Request” below.

It is noted that local public authorities or municipalities which could have been categorised as professional clients under MiFID I, will now be considered as retail clients; thus not falling under the per se professional classification.

The entities mentioned above are considered to be professionals. Sections V and VI provide detailed information with respect to client's right for recategorization and protection rights.

Professional and Eligible Counterparties have the responsibility to inform the Company about any change which is likely to affect their categorisation. If the Company becomes aware that a Professional Client or Eligible Counterparty no longer fulfils the initial conditions, it may take appropriate action, including re-categorizing the Client as a Professional Client or a Retail Client.

### **iii. Professional Clients on request/Elective professional clients**

A Client who has been categorised as a Retail Client by the Company, excluding a local public authority or municipality as specified above, may ask the Company in writing to be treated as a Professional Client and hence may lose some level of regulatory protection and investor compensation rights. The

Company may, at its discretion, decide not to take into consideration such treatment.

In such a case the Client has to fulfil the criteria mentioned in points [1] and [3] and, where applicable [2]:

1. the Company undertakes an adequate assessment of the expertise, experience and knowledge of the Client that gives reasonable assurance, in light of the nature of the transactions or services envisaged, that the Client is capable of making his own investment decisions and understanding the risks involved (the "qualitative test");
2. in relation to the course of the above assessment, at least two of the following criteria are satisfied (the "quantitative test"):
  - a. the Client has carried out transactions, in significant size, on the relevant market at an average frequency of 10 per quarter over the previous four quarters,
  - b. the size of the Client's financial instrument portfolio, defined as including cash deposits and financial instruments exceeds EUR 500 000,
  - c. the Client works or has worked in the financial sector for at least one year in a professional position, which requires knowledge of the transactions or services envisaged.
3. The following procedure is followed:
  - a. the Client must state in writing to the Company or apply through the Company's online forms that it wishes to be treated as a Professional Client either generally or in respect of a particular service or transaction or type of transaction or product;
  - b. the Company must give the Client a clear written warning of the protections and investor compensation rights the Client may lose; and

- c. the Client must state in writing, in a separate document from the contract, that it is aware of the consequences of losing such protections.

Points (b) and (c) shall be performed through the Client's consent of the Elective Professional Clients Disclaimer available in Appendix A.

Before deciding to accept a request for re-categorisation as an Elective Professional Client the Company will take all reasonable steps including the collection of relevant documentation which supports the above in order to ensure that the Client requesting to be treated as an Elective Professional Client satisfies the qualitative test and, where applicable, the relevant quantitative test.

The Company will notify the Client if such a treatment will be approved or not. If the Company approves Clients' request to be treated from Retail Client to a Professional Client, the Client will lose the protections specified in the Law. These may include, *inter alia*, the following:

1. the Client is no longer eligible under the Financial Services Compensation Scheme.
2. the Client is no subject to assessment of appropriateness.
3. the Client is provided with less information about costs and charges as these are agreed between the Client and the Company.

#### **iv. Eligible Counterparties**

An eligible counterparty is a client that is either a per se eligible counterparty or an elective eligible counterparty.

Each of the following is a per se eligible counterparty (including an entity that is not from an EEA State that is equivalent to any of the following) unless and to the extent it is given a different categorisation:

- (1) an investment firm;

- (2) a credit institution;
- (3) an insurance company;
- (4) a collective investment scheme authorised under the UCITS Directive or its management company;
- (5) a pension fund or its management company;
- (6) another financial institution authorised or regulated under EU legislation or the national law of an EEA State;
- (8) a national government or its corresponding office, including a public body that deals with public debt at national level;
- (9) a central bank; and
- (10) a supranational organisation.

The Company recognises the existing overlap between the way professional clients and eligible counterparties are defined in the relevant Laws and Regulations and will be addressing this issue on a case by case basis (if necessary).

#### **V. Option to Change Classification & Request for a Different Categorisation**

RTW BROKERS recognises that Clients should be in general allowed to request to be placed into a different category other than retail. In accordance with the aforesaid, the following request may be submitted to the Company:

- a) A Retail Client requesting to be categorised as a Professional Client. In that case the Client will be afforded a lower level of protection.
- b) A Professional Client requesting to be categorised as a Retail Client. In that case the Client seeks to obtain a higher level of protection.
- c) An Eligible Counterparty requesting to be categorised as a Professional Client or Retail Client. In that case the Client seeks to obtain a higher level of protection.

The Company reserves the right to decline any of the above requests for different categorisation.

It is noted that an Eligible Counterparty or Professional Client is allowed to request non-professional treatment and the Company may agree to provide a higher level of protection. Where the Client of the Company is an undertaking, the Company must inform it prior to any provision of services that, on the basis of the information available to the Company, the Client is deemed to be a Professional Client, and will be treated as such unless the Company and the Client agree otherwise. The Company must also inform the Client that he can request a variation of the terms of the agreement in order to ensure a higher degree of protection.

In this respect, the Company notifies its Clients in a written form of their option to be classified as retail clients. The Company proceeds in this action, in order to offer a uniform level of protection to all of its clients.

The higher level of protection will be provided by the Company when the Client who is considered to be a professional enters into a written agreement with the Company, to the effect that it shall not be treated as a professional. It is the responsibility of the client who is classified as a Professional Client to ask for a higher level of protection when he is not in a position to properly assess and manage the risks involved in the transactions.

## **VI. Protection Rights**

The ways in which a Client may be provided with additional protections in case of a higher level of protection include re-categorisation:

- (1) on a general basis; or
- (2) on a trade by trade basis; or
- (3) in respect of one or more specified rules; or
- (4) in respect of one or more particular services or transactions; or
- (5) in respect of one or more types of product or transaction.

Where the Company treats the Client as a **Retail Client**, he/she/they will be entitled to more protections under the Law than if the Client was entitled to be a Professional Client. In summary, the additional protections Retail Clients are entitled to, are as follows:

- a) Client will be given full, precise and easy to comprehend information/disclosures concerning RTW BROKERS , its services and any investments, its cost, commissions, fees and charges and the safeguarding of client financial instruments and client funds. Clients who are classified as Professional or Eligible Counterparty clients will be provided with the relevant requirements to the extent agreed between the Company and the respective clients;
- b) RTW BROKERS will request the Client to provide information regarding his/her knowledge and experience in the investment field relevant to the specific type of product or service offered or demanded so as to enable the Company to assess whether the investment service or product envisaged is appropriate for the Client. In case the Company considers, on the basis of the information received, that the product or service is not appropriate for the client, the Company will alert the client accordingly or reject the Client's application. In addition, in the event where clients or potential clients do not provide the information regarding their knowledge and experience, or where they provide insufficient information regarding their knowledge and experience, the Company will alert the Client that it is not in a position to determine whether the service or product envisaged is appropriate for them. For a Professional Client the Company is entitled to assume that in relation to the products, transactions and services for which the Client is so classified, the Client has the necessary level of experience and knowledge; In addition, under certain circumstances, the Company shall be entitled to assume that a professional Client is able financially to bear any investment risks consisted with its investment objectives.
- c) when executing orders RTW BROKERS will take all sufficient steps to achieve what is called "best execution" of the Client's orders that is to obtain the best possible result for their Client as defined in the Company's

Order Execution Policy. It is noted that clients who are classified as Professional Clients are also subject to the protections under the Best Execution Regime; however, the Company is not obliged to comply with this obligation with respect to eligible counterparties.

- d) RTW BROKERS will inform Clients of material difficulties relevant to the proper carrying out of their order(s) promptly upon becoming aware of such difficulties;
- e) RTW BROKERS will provide Clients with full and explicit information on the execution of the relevant client orders;
- f) RTW BROKERS will enter into the Terms & Conditions with the Client, that outline the essential rights and obligation of both parties;
- g) RTW BROKERS will make adequate arrangements for financial instruments held on behalf of a Client to prevent their use by the Company for its own account by depositing them with a third party in manner that would make them identifiable from the Company's financial instrument held with that third party (if any) and identifiable from the financial instruments held by that third party as well;
- h) Retail Clients may be entitled to compensation under the Financial Services Compensation Scheme for Clients of Investment Firms;
- i) RTW BROKERS will make adequate arrangements to prevent the use of client funds for its own account by depositing them entirely into segregated bank accounts.
- j) With respect to eligible counterparties, the Company is not obliged to comply with the conduct business obligations (including, inter alia, information about costs and associated charges subject to certain conditions, assessment of appropriateness, specific reporting towards clients), and client handling rules.
- k) Eligible counterparties and "by-default" professional Clients will not be offered negative balance protection. Negative balance protection will be a default option for all elective professional clients taking in account that the leverage used is not higher than 1:50. Upon request elective professional

clients can receive negative balance protection combined with the use of a higher leverage than 1:50. In addition, the Company reserves the right to remove negative balance protection, decrease leverage (i.e. Increase margin rates), or vice versa, for specific Client accounts, on a case by case evaluation. The Company might exercise this right at its sole discretion in cases where the trading style of specific accounts justifies such change, or in cases where a Client account exceeds the Company's acceptable risk limits. The Company shall inform the client of such change(s) before this is implemented.

➤ **Professional Clients:**

As also mentioned above, where the Company provides an investment service to a Professional Client it shall be entitled to assume that, in relation to the products, transactions and services for which it is so classified, the Client has the necessary level of experience and knowledge. In addition, under certain circumstances, the Company shall be entitled to assume that a Professional Client is able financially to bear any investment risks consisted with its investment objectives.

#### General Provisions in respect of Professional Clients

- Clients who under Section IV were categorised as professional are allowed to request non-professional treatment and the Company may agree to provide a higher level of protection.
- In instances where the Client is an "undertaking", the Company will inform such Client (prior to any provision of services) that, on the basis of the information available to the Company, the Client is deemed to be a Professional Client and will be treated as such unless otherwise agreed.
- The Client can request a variation of the terms of the agreement in order to secure a higher degree of protection.

- It is the responsibility of the Professional Client to ask for a higher level of protection when it deems it is unable to properly assess or manage the risks involved.
  - This higher level of protection will be provided when a Client who is considered to be a professional enters into a written agreement with the Company to the effect that it shall not be treated as a professional for the purposes of the applicable conduct of business regime. Such agreement shall specify whether this applies to one or more particular services or transactions, or to one or more types of product or transaction.
- **Eligible Counterparties:**
- Where the Company treats the Client as an eligible counterparty, the Client will be entitled to fewer protections under the law than they would be entitled to as a Professional Client. In particular, and in addition to the above:
  - The Company is not required to provide the Client with the best execution of the Client's orders;
  - The Company is not required to assess the appropriateness of a product or service that it provides to the Client but can assume that the Client has the expertise to choose the most appropriate product or service and that Client is financially able to bear any investment risks consisted with their investment objectives;
  - The Company is not required to provide the Client with information about the Company, its services and the arrangements through which the Company will be remunerated;
  - The Company is not required to provide the Client with risk disclosures on the products or services that they select from the Company; and

- The Company is not required to provide reports to the Client on the execution of their orders or the management of their investments.

## **VII. Retail and Professional Client Agreements**

The Company, by virtue of the recent MIFID II implementation, and as stated in Article 58 of the Commission Delegated Regulation (EU) 2017/565, hereby informs its Clients that written agreements will be provided (i.e. the Company's Terms & Conditions), setting out the essential rights and obligations of both the Company and the Client.

## Appendix A

### **Elective Professional Clients Disclaimer**

#### **1. General**

RTW BROKERS UK LIMITED (the “Company”) is authorized and regulated by the Financial Conduct Authority (the “FCA”). The Company is authorized to provide investment and ancillary services with regards to specific financial instruments as stated in its FCA License.

This Elective Professional Clients Disclaimer (the “Policy”) sets out important information for retail Clients who request to be classified as Professional. The policy needs to be read and understood in full, whilst for any enquiries, you may contact [support@rtwbrokers.com](mailto:support@rtwbrokers.com)

Retail Clients may be classified as Professional Clients when they meet at least two of the three following criteria:

- the Client seeking professional status has carried out transactions, in significant size, on the relevant market at an average frequency of 10 per quarter over the previous four quarters;
- the size of the financial instrument portfolio of the Client seeking professional status, defined as including cash deposits and financial instruments, exceeds EUR 500 000;

the Client works or has worked in the financial sector for at least one year in a professional position, which requires knowledge of the transactions or services envisaged.

In terms of Law, Professional clients are those clients where we can assume that they have sufficient knowledge, experience and expertise to make their own investment decisions and understand the risks involved in trading with CFDs.

As a Professional Client you are responsible to inform us about any change, which could affect your current classification. In case of such change, please notify us in writing at the following e-mail address: [support@rtwbrokers.com](mailto:support@rtwbrokers.com) or notify your dedicated account manager. Should we become aware however that you no longer fulfill the initial conditions, which made you eligible for Professional Client treatment, we will take appropriate action.

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You are entitled to demand at any time another classification, e.g. be re-categorised as a Retail Client and receive higher level of protection in terms of the regulations of the Law (see Part 2 below). In this case, please notify us in writing at the following e-mail address: [support@rtwbrokers.com](mailto:support@rtwbrokers.com) or notify your dedicated account manager. Such re-classification becomes effective after such request has been received and acknowledged by the relevant officer of our Compliance Department. For avoidance of doubt, such requests cannot be retroactively applied to trading transactions that have taken place before we have formally received and acknowledged such request.

## **2. Consequences of categorisation as Elective Professional Client**

Once categorised as a Professional Client, you will lose some of the regulatory protections which would have otherwise been available to you as a Retail Client. In particular, the following changes shall be applicable:

- **Appropriateness Test and understanding of risk:** We assume that you have sufficient knowledge and experience to understand and assess the risks of the relevant financial instruments and your transactions, therefore we will not provide you with any written risk warnings in relation to any of your transactions.
- **Terms of Business:** Our Terms & Conditions and Policies remain applicable to you to the extent they are not in conflict with your status as a Professional Client.
- **Financial Promotions:** Rules relating to financial promotions are limited or modified in their application to Professional Clients compared to Retail Clients. Financial promotions directed at Professional Clients' are only subject to the high level requirement that they are fair, clear and not misleading.
- **Financial Services Compensation Scheme (the "FSCS"):** Only Retail Clients have access FSCS in the case where we are unable to meet our obligations.
- **Negative Balance Protection:** Negative balance protection will be a default option for all elective professional clients taking in account that

the leverage used is not higher than 1:50. Upon request elective professional clients can receive negative balance protection combined with the use of a higher leverage than 1:50. In addition, the Company reserves the right to remove negative balance protection, decrease leverage (i.e. Increase margin rates), or vice versa, for specific client accounts, on a case by case evaluation. The Company might exercise this right at its sole discretion in cases where the trading style of specific accounts justifies such change, or in cases where a client account exceeds the Company's acceptable risk limits. The Company shall inform the client of such change(s) before this is implemented.